



0000118336

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission

DOCKETED

SEP 28 2010

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

DOCKETED BY

NR

IN THE MATTER OF THE APPLICATION OF
THE ESTATE OF WILLIAM F. RANDALL D/B/A
VALLE VERDE WATER COMPANY FOR AN
INCREASE IN ITS WATER RATES.

DOCKET NO. W-01431A-09-0360

IN THE MATTER OF THE APPLICATION OF
THE ESTATE OF WILLIAM F. RANDALL D/B/A
VALLE VERDE WATER COMPANY FOR
AUTHORITY TO INCUR LONG-TERM DEBT.

DOCKET NO. W-01431A-09-0361

DECISION NO. 71899OPINION AND ORDER

DATE OF HEARING:

April 22, 2010

PLACE OF HEARING:

Tucson, Arizona

ADMINISTRATIVE LAW JUDGE:

Belinda A. Martin

APPEARANCES:

Mr. Steve Wene, MOYES SELLERS & SIMS, on
behalf of the Estate of William F. Randall d/b/a Valle
Verde Water Company; and

Ms. Kimberly A. Ruht and Ms. Ayesha Vohra, Staff
Attorneys, Legal Division, on behalf of the Utilities
Division of the Arizona Corporation Commission.

BY THE COMMISSION:

PROCEDURAL HISTORY

On July 17, 2009, Southwestern Utility Management, Inc., ("SUM") interim manager of William F. Randall d/b/a Valle Verde Water Company ("Valle Verde" or "Company") filed with the Arizona Corporation Commission ("Commission") an application on behalf of Valle Verde for an increase in the Company's water rates ("Rate Application"). Also on July 17, 2009, SUM filed an application on behalf of Valle Verde for authority to incur long-term debt ("Finance Application").

On July 24, 2009, SUM filed an Affidavit of Mailing, averring that it had mailed notice of the Rate Application to all Valle Verde customers by U.S. Mail on July 17, 2009.

1 On July 29, 2009, SUM filed an Affidavit of Mailing, averring that it had mailed notice of the
2 Finance Application to Valle Verde customers by U.S. Mail on July 27, 2009.

3 On August 14, 2009, the Commission's Utilities Division Staff ("Staff") filed a Letter of
4 Deficiency indicating that the Rate Application was not sufficient pursuant to the Arizona
5 Administrative Code ("A.A.C.") R14-2-103.

6 On September 11, 2009, SUM filed a Response to Staff's Deficiency Letter.

7 On September 29, 2009, Staff filed its Letter of Sufficiency in the Rate Application docket,
8 classifying Valle Verde as a Class 'C' public water utility.

9 On October 1, 2009, Staff filed Motions for Consolidation in both the Rate Application
10 docket and the Finance Application docket.

11 On October 5, 2009, a Procedural Order was issued setting the hearing in the Rate Application
12 for April 22, 2010, and establishing other procedural deadlines.

13 On October 13, 2009, a Procedural Order was issued consolidating the Rate Application
14 docket and the Finance Application docket.

15 On November 5, 2009, SUM filed an Affidavit averring that it had mailed a copy of the
16 Notice of Hearing to its customers on November 4, 2009, and published the Notice of Hearing in the
17 *Nogales International* on November 3, 2009. In response to the Notice, the Commission received
18 numerous customer comments, all opposed to the rate increase requested in the Rate Application.

19 On February 11, 2010, Staff filed the Direct Testimony of Pedro Chaves and Dorothy Hains.

20 On March 12, 2010, SUM filed the Rebuttal Testimony of Bonnie O'Connor, Sonn Rowell
21 and Greg Carlson.

22 On April 1, 2010, Staff filed the Surrebuttal Testimony of Pedro Chaves and Dorothy Hains.

23 On April 12, 2010, SUM filed the Rejoinder of Sonn Rowell.

24 On April 22, 2010, the hearing on these matters was held as scheduled. The parties appeared
25 through counsel before a duly authorized administrative law judge. At the conclusion of the hearing,
26 the dockets were held open pending the submission of certain late-filed exhibits and closing briefs.
27 Because of the briefing schedule, the timeclock in this matter was extended.

28 On May 19, 2010, a Procedural Order was filed directing SUM to publish notice of a Public

1 Comment Meeting to be held on June 2, 2010, in Nogales, Arizona.

2 On May 27, 2010, SUM filed a Post-Hearing Brief.

3 On June 2, 2010, a Public Comment Meeting was held as directed in the May 19, 2010,
4 Procedural Order. Members of the Public appeared and provided comment.

5 On June 10, 2010, SUM filed the Post-Hearing Testimony of Bonnie O'Connor.

6 On June 24, 2010, Staff filed a Request for Extension of time to file its Responsive Brief.

7 On June 28, 2010, a Procedural Order was filed granting Staff's Request for Extension.

8 On June 29, 2010, Staff filed its Responsive Brief and Final Schedules.

9 On July 15, 2010, SUM filed a Post-Hearing Reply Brief.

10 On August 9, 2010, SUM filed a Motion to Include Emergency Repairs Within Scope of
11 Projects Set Forth in Finance Application.

12 On August 16, 2010, Staff filed its Response to the Motion.

13 * * * * *

14 Having considered the entire record herein and being fully advised in the premises, the
15 Commission finds, concludes, and orders that:

16 **FINDINGS OF FACT**

17 **BACKGROUND**

18 1. Valle Verde is an Arizona Class 'C' public water utility engaged in the business of
19 providing potable water service to approximately 800 customers near the City of Nogales, Arizona, in
20 Santa Cruz County. The Commission granted Valle Verde a Certificate of Convenience and
21 Necessity in Decision No. 28887 (April 27, 1955). Valle Verde's current permanent rates and
22 charges were set by Decision No. 59553 (March 13, 1996).

23 2. Valle Verde is currently owned by the Estate of William F. Randall, who had operated
24 the system for many years prior to his death.¹ Upon Mr. Randall's death, the system fell into
25 financial and operational disarray and became non-compliant with several Arizona Department of
26 Environmental Quality ("ADEQ") Rules.

27 _____
28 ¹ SUM witness Bonnie O'Connor testified that the ownership status has not changed since SUM became the interim manager. Tr. at 18.

3. On August 29, 2007, the Commission issued Decision No. 69882, an Order to Show Cause, ordering Valle Verde to answer allegations concerning the violation of Commission Rules and directing Staff to appoint an interim manger to operate the system. The Commission entered into an agreement with SUM to act as the interim manager of Valle Verde. SUM has been operating the system as interim manager, pursuant to an agreement with the Commission, since September 2007.

4. On September 27, 2007, SUM filed an application with the Commission for emergency rate relief and for authority to access the small water system fund administered by the Water Infrastructure Finance Authority ("WIFA") pursuant to A.R.S. § 49-355.

5. In Decision No. 70098 (December 21, 2007), the Commission granted an emergency interim surcharge of \$1.73 per 1,000 gallons in order to keep the system operating, make necessary repairs and to remediate problems the system was experiencing with volatile organic compounds ("VOCs"). The Decision noted that if there were any funds remaining after necessary repairs and correcting the water quality problems, the Company could apply those funds to paying down any outstanding accounts payable. The Decision also directed SUM to file an application for a permanent rate increase by April 30, 2009. Decision No. 71175 (June 30, 2009) granted SUM an extension for filing of the rate application until July 17, 2009. SUM filed the instant Rate Application on July 17, 2009. Upon approval of Valle Verde's permanent rates, the emergency interim surcharge will no longer be collected.

RATE APPLICATION

6. During the test year ending December 31, 2008 ("Test Year"), Valle Verde provided water utility service to approximately 800 customers.

7. SUM proposes that the Commission adopt rates that would result in an overall increase in revenues of 109.31 percent. Staff recommends a revenue increase of 103.04 percent. A summary of the parties' final revenue requirement positions follows:²

...

...

...

² Staff's Responsive Brief, Final Schedule PMC-1.

	<u>Company Proposed</u>	<u>Staff Proposed</u>
1 ORIGINAL COST		
2 Fair Value Rate Base	\$ 517,840	\$ (593,061)
3 Adjusted Operating Inc.	(301,837)	(225,970)
4 Current Rate of Return	-58.29%	Not Meaningful
5 Required Rate of Return	Not Used	Not Meaningful
6 Rec. Operating Margin	20.56%	10.09%
7 Req'd Operating Income	195,915	56,687
8 Rec. Operating Inc.	497,753	282,657
9 Rev. Conver. Factor	1.0000	1.0086
10 Rec. Op. Rev. Inc.	497,753	285,075
11 Adjusted TY Rev.	455,348	276,656
12 Rec. Ann. Op. Rev	953,101	561,730
13 Req'd Inc. in Rev. (%)	109.31%	103.04%
14 Rate of Return	37.83%	Not Meaningful

11 8. Staff's adjustment to the Company's proposed fair value rate base ("FVRB"), which is
 12 the same as its original cost rate base, included the removal by Staff of \$1,063,478 of plant that has
 13 yet to be constructed, Staff's disallowance of \$52,205 in working capital, and the addition of
 14 reclassified plant in the amount of \$4,782.³ Staff's adjustments result in a recommended negative
 15 FVRB of (\$593,061), a \$1,120,465 decrease to the Company's proposed FVRB of \$517,840.

16 9. Staff's recommended FVRB is reasonable and shall be adopted.

17 10. Much of the remaining difference between SUM's and Staff's calculations relate to
 18 disagreements regarding the treatment of depreciation expense in calculating cash flow and debt
 19 service, and Staff's property tax calculation.

20 Depreciation Expense and Cash Flow

21 11. Staff recommends adjusted operating revenues of \$561,730 and adjusted operating
 22 expenses of \$505,043, for a total recommended operating income of \$56,687. Included in Staff's
 23 recommended operating expenses is an adjusted depreciation expense of \$112,113.⁴

24 12. To calculate Valle Verde's *pro forma* cash flow, including the debt service for the
 25 WIFA loan,⁵ Staff began with the \$56,687 operating income, added the depreciation expense of
 26

27 ³ Staff's Responsive Brief, Final Schedule PMC-3.

28 ⁴ Staff's Responsive Brief, Final Schedule PMC-6.

⁵ See the Finance Application section herein for a discussion of the WIFA loan.

1 \$112,113, and then backed out advance refunds and debt service. This calculation resulted in a *pro*
2 *forma* cash flow for the Company of \$71,709 for any contingencies the Company may have.⁶

3 13. Valle Verde objects to Staff's inclusion of depreciation expense in the *pro forma* cash
4 flow calculations. The Company states that, "Staff first includes the revenue from depreciation to
5 cover operating expenses, and then it later includes that same revenue from depreciation to service
6 debt."⁷ The Company asserts that the result of this "double-counting" will result in it having very
7 little income to make unanticipated capital repairs.

8 14. Staff responds that Valle Verde is not accurately reflecting Staff's position. "The
9 [Company's] assertion fails to recognize that depreciation is appropriately included as an operating
10 expense in the income statement and as a reconciling item for calculating cash flow when using
11 operating income as the starting amount."⁸ Staff explains:

12
13 Staff's recommended revenues provide for recovery of all operating expenses, including
14 depreciation expense. Staff's Final Schedule PMC-6. An operating income, as opposed
15 to an operating loss, demonstrates that Staff's recommended revenue provides for
16 recovery of depreciation expense as well as all other operating expenses. Unlike an
17 operating income statement, a cash flow analysis simply shows the sources and uses of
18 cash. Thus, non-operating items that are a source or use of cash such as principal and
interest payments on debt service are included and non-cash items such as depreciation
expense are excluded. Staff's Final Schedule PMC-6 provides a calculation of net cash
flows showing that Staff-recommended revenues generate a \$71,709 positive net cash
flow. This represents the amount of contingent cash generated annually after all cash
obligations have been paid.⁹

19 15. In other words, because depreciation is non-cash, non-operating revenue, Staff asserts
20 it is correct to include depreciation when determining what cash is available for payment of various
21 obligations such as debt service. Staff asserts that it "is a common practice in the financial world,"
22 and notes that Staff confirmed with WIFA that it, too, "includes depreciation expense in the
23 numerator when calculating debt service."¹⁰

24 16. We agree with Staff's position and adopt Staff's treatment of the depreciation expense
25 for cash flow and debt service calculations.

26 ⁶ Staff's Responsive Brief, Final Schedule PMC-6.

27 ⁷ Valle Verde's Post-Hearing Brief, page 2.

28 ⁸ Staff's Responsive Brief, page 3.

⁹ *Id.*

¹⁰ Tr. at 161-163.

1 **Property Tax Calculation**

2 17. During the Test Year, Valle Verde paid property taxes of \$14,129 and requests that the
3 Commission adopt this amount as its property tax expense going forward.

4 18. Staff recommends decreasing the property tax expense from \$14,129 to \$9,108, a
5 decrease of \$5,021. "Staff used a modification of the Arizona Department of Revenue ("ADOR")
6 method to calculate Valle Verde's property tax expense, which is the methodology typically
7 employed by Staff."¹¹ Using ADOR's formula, Staff calculated the Company's property tax as
8 \$6,690; however, for ratemaking purposes Staff increased that amount to \$9,108 to allow for the
9 prospective component of Staff's methodology.¹²

10 19. Staff states that the Company's request to allow the amount of taxes paid during the
11 Test Year as the property tax expense is not an accurate method of determining property taxes for
12 future years. In its Responsive Brief Staff notes:

13
14 Even though Staff utilized the method employed by ADOR, the Company takes issue
15 with Staff's calculation and recommendation because it is different than Valle Verde's.
16 The Company proposes a property tax expense based on the amount paid during the test
17 year, but that number is inconsistent with, and significantly higher than, Staff's
18 calculation. This suggests that Valle Verde's taxes were not appropriately assessed, to
the Company's detriment. However, Staff does not believe it is reasonable for the
Company to overpay on its taxes and then be allowed to pass that burden on to the
ratepayers. Tr. at 148:16-20. It is the Company's responsibility, not the ratepayers'
responsibility, to properly manage the Company's expenses.¹³

19 20. Using Staff's methodology adopted from the ADOR property tax formula, Staff
20 believes that Valle Verde has overpaid its property tax and should have challenged the tax
21 assessment.¹⁴

22 21. The Company asserts that Staff's calculations of prospective property taxes are
23 speculative, as is Staff's assertion that the Company overpaid its taxes in the past. Valle Verde
24 further notes that with the rate increase, the property taxes will likely also increase. As such, the
25

26
27 ¹¹ Staff's Responsive Brief, page 4.

¹² *Id.*

¹³ *Id.*

¹⁴ Tr. at 171-174

1 Company believes its approach is the more reasonable one going forward.¹⁵

2 22. Staff states that "the Company's methodology does not address or remedy why the
3 Company paid significantly more property tax during the Test Year than would be expected using
4 ADOR's method and the same inputs."¹⁶

5 23. The Company did not explain why its property tax expense was higher than
6 calculated using the ADOR property tax formula and did not submit sufficient evidence that Staff's
7 use of the modified ADOR method for calculating property tax in analyzing rate cases is incorrect or
8 inadequate. Staff's recommendation is reasonable and shall be adopted.

9 Revenue Requirement

10 24. Based on the foregoing, we adopt Staff's recommended revenue requirement of
11 \$561,730, which, after adjusted operating expenses of \$503,043, results in operating income of
12 \$56,687.

13 Rate Design

14 25. Set forth below are the current, Company proposed, and Staff proposed rates and
15 charges according their respective revenue requirement and rate design recommendations.¹⁷

17 <u>MONTHLY USAGE CHARGES:</u>	Present Rates	Company Proposed	Staff Recommended
18 5/8" x 3/4" Meter (All Classes)	\$11.75	\$30.00	\$18.00
19 3/4" Meter (All Classes)	11.90	45.00	18.00
20 1" Meter (All Classes)	20.00	75.00	43.00
21 1-1/2" Meter (All Classes)	31.00	150.00	86.00
22 2" Meter (All Classes)	59.65	240.00	138.00
23 3" Meter (All Classes)	120.00	480.00	275.00
24 4" Meter (All Classes)	250.00	750.00	429.00
25 6" Meter (All Classes)	500.00	1,500.00	857.00
26 ...			
27 ...			
28 ...			

¹⁵ Valle Verde Post-Hearing Brief, pages 7-8. According to Valle Verde's Final Schedule E-8, it paid \$14,831 in property taxes in 2006, \$15,718 in 2007, and \$14,129 in 2008.

¹⁶ Staff's Responsive Brief, pages 4-5.

¹⁷ Staff's Responsive Brief, Final Schedule PMC-14.

1	<u>COMMODITY CHARGES:</u>			
2	(Per 1,000 Gallons)			
3	<u>5/8 x 3/4-Inch Meter (Residential)</u>			
4	0 to 8,000 Gallons	\$1.30	N/A	N/A
5	Over 8,000 Gallons	1.47	N/A	N/A
6	0 to 3,000 Gallons	N/A	\$3.00	\$1.30
7	3,001 to 10,000 Gallons	N/A	4.50	2.90
8	Over 10,000 Gallons	N/A	5.65	4.25
9	<u>3/4-Inch Meter (Residential)</u>			
10	0 to 8,000 Gallons	1.30	N/A	N/A
11	Over 8,000 Gallons	1.47	N/A	N/A
12	0 to 3,000 Gallons	N/A	3.00	1.30
13	3,001 to 10,000 Gallons	N/A	4.50	2.90
14	Over 10,000 Gallons	N/A	5.65	4.25
15	<u>5/8 x 3/4-Inch Meter (Commercial)</u>			
16	0 to 8,000 Gallons	1.30	N/A	N/A
17	Over 8,000 Gallons	1.47	N/A	N/A
18	0 to 3,000 Gallons	N/A	3.00	N/A
19	3,001 to 10,000 Gallons	N/A	4.50	N/A
20	Over 10,000 Gallons	N/A	5.65	N/A
21	0 to 10,000 Gallons	N/A	N/A	2.90
22	Over 10,000 Gallons	N/A	N/A	4.25
23	<u>3/4-Inch Meter (Commercial)</u>			
24	0 to 8,000 Gallons	1.30	N/A	N/A
25	Over 8,000 Gallons	1.47	N/A	N/A
26	0 to 3,000 Gallons	N/A	3.00	N/A
27	3,001 to 10,000 Gallons	N/A	4.50	N/A
28	Over 10,000 Gallons	N/A	5.65	N/A
29	0 to 10,000 Gallons	N/A	N/A	2.90
30	Over 10,000 Gallons	N/A	N/A	4.25
31	<u>1-Inch Meter (Residential, Commercial)</u>			
32	0 to 8,000 Gallons	1.30	N/A	N/A
33	Over 8,000 Gallons	1.47	N/A	N/A
34	0 to 15,000 Gallons	N/A	4.50	2.90
35	Over 15,000 Gallons	N/A	5.65	4.25

1 1/2 -Inch Meter (Residential, Commercial)

0 to 8,000 Gallons	1.30	N/A	N/A
Over 8,000 Gallons	1.47	N/A	N/A
0 to 20,000 Gallons	N/A	4.50	2.90
Over 20,000 Gallons	N/A	5.65	4.25

2-Inch Meter (Residential, Commercial, Res/Comm.)

0 to 8,000 Gallons	1.30	N/A	N/A
Over 8,000 Gallons	1.47	N/A	N/A
0 to 25,000 Gallons	N/A	4.50	2.90
Over 25,000 Gallons	N/A	5.65	4.25

3-Inch Meter (Residential, Commercial)

0 to 8,000 Gallons	1.30	N/A	N/A
Over 8,000 Gallons	1.47	N/A	N/A
0 to 70,000 Gallons	N/A	4.50	2.90
Over 70,000 Gallons	N/A	5.65	4.25

4-Inch Meter (Residential, Commercial)

0 to 8,000 Gallons	1.30	N/A	N/A
Over 8,000 Gallons	1.47	N/A	N/A
0 to 150,000 Gallons	N/A	4.50	2.90
Over 150,000 Gallons	N/A	5.65	4.25

6-Inch Meter (Residential, Commercial)

0 to 8,000 Gallons	1.30	N/A	N/A
Over 8,000 Gallons	1.47	N/A	N/A
0 to 500,000 Gallons	N/A	4.50	2.90
Over 500,000 Gallons	N/A	5.65	4.25

SERVICE LINE AND METER INSTALLATION CHARGES:

	<u>Present</u>		<u>Company Proposed</u>		<u>Staff Recommended</u>		
	Total	Service Line	Meter Installation	Total	Service Line	Meter Installation	Total
5/8" x 3/4" Meter	\$ 320.00	\$ 445.00	\$ 155.00	\$ 600.00	\$ 445.00	\$ 155.00	\$ 600.00
3/4" Meter	360.00	445.00	255.00	700.00	445.00	255.00	700.00
1" Meter	420.00	495.00	315.00	810.00	495.00	315.00	810.00
1-1/2" Meter	635.00	550.00	525.00	1,075.00	550.00	525.00	1,075.00

1	2" Turbine Meter	1,090.00	830.00	1,045.00	1,875.00	830.00	1,045.00	1,875.00
	2" Compound Meter	N/T	830.00	1,890.00	2,720.00	830.00	1,890.00	2,720.00
2	3" Turbine Meter	1,505.00	1,045.00	1,870.00	2,715.00	1,045.00	1,870.00	2,715.00
	3" Compound Meter	N/T	1,165.00	2,545.00	3,710.00	1,165.00	2,545.00	3,710.00
3	4" Turbine Meter	2,380.00	1,490.00	1,737.00	3,227.00	1,490.00	1,737.00	3,227.00
	4" Compound Meter	N/T	1,670.00	3,645.00	5,315.00	1,670.00	3,645.00	5,315.00
4	6" Turbine Meter	4,655.00	2,210.00	3,766.00	5,976.00	2,210.00	3,766.00	5,976.00
	6" Compound Meter	N/T	2,330.00	6,920.00	9,250.00	2,330.00	6,920.00	9,250.00
5	Over 6"	N/T	N/T	N/T	N/T	Cost	Cost	Cost

SERVICE CHARGES:

<u>SERVICE CHARGES:</u>		<u>Present Rates</u>	<u>Company Proposed</u>	<u>Staff Recommended</u>
8				
9	Establishment	\$10.00	\$30.00	\$30.00
	Establishment (After Hours)	20.00	40.00	40.00
10	Reconnection (Delinquent)	20.00	40.00	40.00
	Reconnection (Delinquent and After Hours)	N/T	50.00	50.00
11	Meter Test (if correct)	35.00	35.00	35.00
12	Deposit	(a)	(a)	(a)
	Deposit Interest	(a)	(a)	(a)
13	Re-Establishment (Within 12 Months)	(b)	(b)	(b)
	NSF Check	\$15.00	\$30.00	\$25.00
14	Late Charge per month	1.50%	1.50%	1.50%
	Deferred Payment, Per Month	1.50%	1.50%	1.50%
15	Meter Re-Read (If Correct)	10.00	20.00	20.00
16	Monthly Service Charge for Fire Sprinkler	(c)	(c)	(d)

N/T = No Tariff

- (a) Per Commission Rule A.A.C. R14-2-403(B)
- (b) Number of months off system times the monthly minimum, per Commission Rule A.A.C. R14-2-403(D).
- (c) 1% of monthly minimum for a comparable sized meter connection, but no less than \$5.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.
- (d) 2% of monthly minimum for a comparable sized meter connection, but no less than \$10.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

26. For a residential customer served by a 5/8-inch meter with average usage of 7,550 gallons per month, the current monthly charges are \$21.57. Under the Company's proposed rates, a customer with the same average usage would experience an increase of \$37.91 per month, or 175.79 percent, to \$59.48. For a residential customer with a median usage of 5,658 gallons per month, the current monthly charges are \$19.11. The Company's proposal would increase this current monthly bill by \$31.86, or 166.74 percent, to \$50.97.

27. For a residential customer served by a 3/4-inch meter with average usage of 7,433 gallons per month, the current monthly charges are \$21.56. Under the Company's proposed rates, a customer with the same average usage would experience an increase of \$52.39 per month, or 242.94 percent, to \$73.95. For a residential customer with a median usage of 5,480 gallons per month, the current monthly charges are \$19.02. The Company's proposal would increase this current monthly bill by \$46.14, or 242.51 percent, to \$65.16.

28. An average usage customer on a 5/8-inch meter under Staff's recommended rates would experience an increase of \$13.53 per month, or 62.74 percent, to \$35.10. Staff's recommendation would increase the median usage customer's monthly bill by \$10.50, or 54.97 percent, to \$29.61.

29. An average usage customer on a 3/4-inch meter under Staff's recommended rates would experience an increase of \$13.19 per month, or 61.17 percent, to \$34.75. Staff's recommendation would increase the median usage customer's monthly bill by \$10.07, or 52.91 percent, to \$29.09.

30. Based upon our adoption of Staff's revenue requirement, we will adopt Staff's proposed rate design.

Temporary Surcharge

31. In the Rate Application, SUM listed a purchased water expense of \$187,158 for water the Company had to purchase from the City of Nogales due to a number of problems with the wells. SUM noted that the rates the Company had to pay the City for the water exceeded what the Company could charge its customers, thereby causing Valle Verde to incur substantial debt.¹⁸ SUM ceased purchasing water from the City in November or December of 2008.¹⁹ SUM made payments on the account as it could, and as of May 21, 2010, the balance on the account was \$95,707.84.²⁰

32. Staff disallowed the purchased water expense for the purpose of determining permanent rates because it is not an expense for the Company going forward. SUM understood

¹⁸ Bonnie O'Connor testified that she approached the City of Nogales and asked for a reduced water rate given the Company's dire financial and operational circumstances, but the City did not grant a discount. Ms. O'Connor testified that the City's rate was approximately \$2.53 and the Company's rate is \$1.30. Tr. at 15.

¹⁹ Tr. at 29.

²⁰ Valle Verde's Post-Hearing Brief, Final Schedule C-2c.

1 Staff's reasoning, but asserted that some means of cash flow is necessary to repay the debt.

2 33. As such, SUM proposed a temporary surcharge ("Temporary Surcharge") to be used
3 solely for the purpose of paying off the remaining balance owed to the City of Nogales for purchased
4 water. SUM proposed a surcharge amount of \$5.62 per month, per customer.²¹

5 34. At hearing, SUM proposed revising the calculations from a flat fee to a volumetric
6 charge. According to SUM, this would result in customers who use more water sharing a more
7 proportional cost in repaying the City.²² Under SUM's proposed volumetric charge, customers would
8 be charged \$.60 per 1,000 gallons.²³ A customer on a 5/8-inch meter having average water usage of
9 7,550 would have a surcharge of approximately \$4.53. A customer on a 5/8-inch meter having
10 median water usage of 5,658 would have a surcharge of approximately \$3.39. The funds generated
11 by this surcharge will be a dedicated revenue stream. SUM estimates that the surcharge will be
12 necessary for approximately 18 months, depending upon the amount that is owed at the time the
13 surcharge is implemented. Upon payment in full of the account, the surcharge will cease.²⁴

14 35. Staff does not object to the temporary surcharge and believes a volumetric surcharge is
15 more appropriate than a flat fee.²⁵ Staff recommends that the Company be ordered to file notice with
16 the Commission when the debt to the City has been paid and SUM is no longer collecting the
17 surcharge.²⁶ Staff's recommendation is reasonable and shall be adopted.

18 36. We believe it is also reasonable to require the Company to file quarterly statements
19 with the Commission regarding the status of the account.

20 FINANCE APPLICATION

21 37. SUM's Financing Application requested Commission approval to obtain a \$1,063,478
22 loan from WIFA for a term of 20 to 30 years. The funds from the loan will be used to repair and
23 replace water distribution mains, interconnect wells, install an arsenic treatment system, abandon
24 wells contaminated with VOCs, relocate water distribution lines into the public right-of-way, replace
25

26 ²¹ Surrebuttal Testimony of Sonn Rowell, pages 5-6 and Surrebuttal Schedule C-2c.

²² Tr. at 62-63.

²³ Valle Verde Post-Hearing Brief, Final Schedule C-2c.

²⁴ Valle Verde Post-Hearing Brief, pages 5-6.

²⁵ Tr. at 146-147, 179.

²⁶ Staff's Responsive Brief, page 4.

1 water meters, install fire hydrant locks and make other related improvements.

2 38. SUM anticipates paying a fixed interest rate of prime plus two percent multiplied by a
3 subsidy rate index set by WIFA. According to the Finance Application, WIFA may offer the
4 Company an 85 percent subsidy rate such that the effective interest rate could be prime plus two
5 percent x 85 percent.

6 39. Staff reviewed the projects proposed in the Financing Application and determined the
7 projects are appropriate and the cost estimates projected by the Company are reasonable. Staff made
8 no "used and useful" determination of the proposed plant and no particular future treatment should be
9 inferred for rate-making or rate base purposes.

10 40. During Staff's review of Valle Verde's water systems, Staff found that one of the
11 Company's well systems, PWS No. 12-009, does not currently have any storage capacity and the
12 Company did not propose in its Finance Application to install storage capacity as part of its
13 improvements. As such, Staff recommends that a minimum of 175,000 gallons of storage capacity be
14 installed prior to December 2011. Staff further recommends that a copy of the Approval of
15 Construction for the additional storage be docketed as a compliance item in this matter no later than
16 December 31, 2011.²⁷

17 41. In response to Staff's recommendation, the Company increased its financing request
18 from \$1,063,478 to \$1,313,938 to include an estimated construction cost of \$250,460 for the
19 additional storage recommended by Staff.

20 42. Engineering Staff reviewed the proposed cost of the additional storage construction
21 and found that certain equipment included by the Company in its cost estimates was not necessary
22 and Staff estimated the cost of constructing the 175,000 gallon storage tank at approximately
23 \$214,760.²⁸ As a result, the amount of the WIFA loan recommended by Staff for approval by the
24 Commission is \$1,278,238.²⁹

25 43. Staff examined the effects of the proposed financing on Valle Verde's debt service
26

27 ²⁷ Exhibit S-1, Direct Testimony of Dorothy Hains, DMH-1, page 4.

28 ²⁸ Exhibit S-2, Surrebuttal Testimony of Dorothy Hains, pages 3-4.

29 ²⁹ Exhibit S-4, Surrebuttal Testimony of Pedro Chaves, page 3.

1 coverage ("DSC").³⁰ Using Staff's recommended revenue requirement and fully drawing the
2 proposed \$1,278,238 loan results in *pro forma* DSC 1.74. This ratio shows that Valle Verde would
3 have adequate cash flow to meet all obligations, including the proposed debt.

4 44. Staff concludes that the proposed WIFA loan is an appropriate financial instrument to
5 finance the proposed plans. Staff further concludes that issuance of a long-term amortizing loan of
6 approximately 18 to 22 years for the \$1,278,238 estimated cost of the capital improvements is
7 appropriate, is within its corporate powers, is compatible with the public interest, would not impair its
8 ability to provide services and would be consistent with sound financial practices.

9 45. Staff recommends Commission authorization for Valle Verde to obtain an 18-to-22
10 year amortizing loan at a rate not to exceed the prime rate plus two percent for an amount not to
11 exceed \$1,278,238 to finance the improvements.

12 46. On August 9, 2010, SUM filed a Motion to Include Emergency Repairs Within Scope
13 of Projects Set Forth in Finance Application. According to the Motion, the Company recently
14 discovered a substantial leak in a 4-inch mainline located two feet from the edge of a main
15 thoroughfare. Although the line has been temporarily repaired, SUM believes that the line must
16 immediately be isolated and taken out of service. In order to fund this project, which SUM estimates
17 will cost approximately \$25,000, SUM will enter into a short-term agreement loan with Valle Verde.
18 SUM requests that this project be included as an authorized project under its Finance Application and
19 asks the Commission to permit Valle Verde to use the WIFA loan proceeds to repay SUM's short-
20 term loan. SUM states that it is not requesting an increase in the amount of financing; it only seeks
21 authority to use funds from the WIFA proceeds for the repayment of the short-term loan.

22 47. In Staff's Response to the Motion, Staff stated that they have no objection to the
23 Company requests, but suggests that it would be beneficial to keep this docket open for at least
24 twelve months. Staff's reasoning is that, in the event that other emergency circumstances arise that
25 may prevent the Company from repaying SUM's short-term loan within twelve months, conversion
26 of the loan from short-term debt into long-term debt could be accomplished without the need for an
27

28 ³⁰ DSC represents the number of times internally generated cash cover required principal and interest payments on debt.
A DSC greater than 1.0 means operating cash flow is sufficient to cover debt obligations.

1 entirely new application.³¹

2 48. Staff's recommendations are reasonable and shall be adopted.

3 49. We believe it reasonable to allow SUM to engage in any transaction and to execute
4 any documents necessary to effectuate the permitted authorization.

5 50. Further, it is reasonable to require SUM to file with Docket Control, as a compliance
6 item in this docket, copies of the executed financing documents with 60 days after the transaction is
7 closed.

8 **Unauthorized Truck Loan**

9 51. During the review of the Rate and Finance Application, Staff became aware of an
10 unauthorized debt issuance. According to Staff, on February 25, 2008, Valle Verde obtained a
11 \$15,238, 60-month, 7.14 percent loan from Citizens Automobile Finance to acquire a truck. The
12 current balance of the loan is approximately \$9,800.³²

13 52. According to Ms. O'Connor, when SUM took over management of the Company, they
14 found that Valle Verde did not own any transportation equipment. Employees of the Company used
15 their personal vehicles and then the Company reimbursed them for their expenses. After the
16 employees left or were terminated, Valle Verde had no vehicles for employees to use and it became
17 necessary for the Company to purchase a truck as quickly as possible for employee use. Ms.
18 O'Connor testified that she is fully aware that a public utility must obtain Commission approval
19 before acquiring long-term debt, but in this circumstance it was necessary to the Company's
20 operations to purchase a truck quickly.³³

21 53. Staff recommends that the Company should request Commission authorization for the
22 truck loan in accordance with A.R.S. §§ 40-301 and 40-302.

23 54. Staff's recommendation is reasonable and shall be adopted. SUM should file a
24 finance application on behalf of Valle Verde for approval of the truck loan no later than January 31,
25 2011.

26 _____
27 ³¹ Staff's Reply to the Company's Motion to Include Emergency Repairs Within Scope of Projects Set Forth in Finance
Application, page 2.

28 ³² Exhibit S-4, Surrebuttal Testimony of Pedro Chavez, page 4.

³³ Tr. at 24. Ms. O'Connor also stated that SUM donated two vehicles to Valle Verde.

MISCELLANEOUS MATTERS

55. Valle Verde owns and operates two water systems; PWS 12-009 and PWS 12-025. According to Staff, PWS No. 12-009 consists of two wells that have 530 gallons per minute ("gpm") combined capacity, one 500 gpm tetrachloroethylene ("PCE") removal plant, two pressure tanks and a distribution system serving approximately 730 metered customers. This system is interconnected to the City of Nogales water system and was used by the Company for the provision of water to its customers during the construction of the PCE removal plant. Due to the PCE contamination, Well Nos. 1, 4, 7 and 8 have been abandoned. As noted earlier, this system does not have any storage, and Staff recommends construction of a 175,000 gallon storage tank.

56. PWS No. 12-025 consists of three wells that have 1,350 gpm combined capacity, 1,000,000 gallon storage capacity, two booster pump stations, two pressure tanks and a distribution system serving approximately 90 metered customers. Arsenic levels in Well Nos. 5 and 6 exceed the arsenic standard. The Company will use proceeds from the WIFA loan to construct an arsenic treatment plant. Staff states that this system has adequate storage and production capacities.

57. In the Engineering Report attached to the Direct Testimony of Dorothy Hains, Staff stated that PWS No. 12-009 reported a water loss of 21.7 percent during the Test Year, exceeding Staff's recommended 10 percent threshold. Staff stated that the Company attributed the excessive water loss to leakage from a 12-inch main during the Test Year, which was repaired in 2009. Water loss data through October 2009 indicates that the water loss for the system had been reduced to two percent. Staff recommended that the Company monitor this system and report the water loss in its Annual Report.³⁴

58. Ms. Hains stated that during the Test Year the Company reported a water loss of five percent for PWS 12-025, which is with acceptable limits.³⁵

59. During hearing, Ms. Hains testified that after the preparation of her Direct Testimony, Staff learned from the Company's 2009 Annual Report that, although PWS 12-009 reported a substantial decrease in water loss, PWS 12-025 reported an increase in water loss to 21 percent in

³⁴ Exhibit S-1, Direct Testimony of Dorothy Hains, Attachment DMH-1, page 7.

³⁵ *Id.*

1 2009. Because of the large variances in water loss in both systems, Ms. Hains revised Staff's
2 recommendation. Staff now recommends that Valle Verde monitor the water loss for both systems
3 and report the losses in its Annual Reports. If the water loss for either system is greater than 10
4 percent, the Company shall prepare a report containing a detailed analysis and plan to reduce water
5 loss for that particular system to 10 percent or less. If the Company believes it is not cost effective to
6 reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to
7 support its opinion. In no case shall the Company allow water loss to be greater than 15 percent.³⁶

8 60. Staff recommends that the Company use the depreciation rates by individual National
9 Association of Regulatory Utility Commissioners category, as set forth in the Direct Testimony of
10 Dorothy Hains, DMH-1, Exhibit 6, and attached hereto as Exhibit A.

11 61. Staff noted that it received compliance status reports from ADEQ dated December 8,
12 2009, and January 6, 2010, indicating that both water systems are currently delivering water that
13 meets water quality standards required by A.A.C., Title 18, Chapter 4.

14 62. Valle Verde is located in the Santa Cruz Active Management Area ("AMA") and is
15 subject to AMA reporting and conservation rules. Staff received a compliance status report from the
16 Arizona Department of Water Resources ("ADWR") dated September 1, 2009, indicating ADWR has
17 determined that the Company is currently in compliance with departmental requirements governing
18 water providers and/or community water systems.

19 63. Although Valle Verde Water Company is located in the Santa Cruz Active
20 Management Area, and will be required to comply with the conservation goals and management
21 practices of the ADWR, we believe it is in the public interest for the Company to act beyond the
22 minimum requirements. In light of the need to conserve groundwater in Arizona, we believe it is
23 reasonable to require Valle Verde Water Company to address conservation and submit for
24 Commission approval, within 120 days of the effective date of this Decision, at least three Best
25 Management Practices ("BMPs") (as outlined in ADWR's Modified Non-Per Capita Conservation
26 Program.) The BMPs shall generally follow the templates contained on the Commission's website.
27

28 ³⁶ Tr. at pages 120, 122-125.

1 A maximum of two of these BMPs may come from the "Public awareness/PR or Education and
2 Training" categories of the BMPs. The Company may request cost recovery of actual costs
3 associated with the BMPs implemented in its next rate case.

4 64. Staff stated that Valle Verde has no delinquent Commission compliance issues.

5 65. The Company has an approved curtailment tariff and an approved backflow
6 prevention tariff on file with the Commission.

7 66. Because an allowance for the property tax expense is included in Valle Verde's rates
8 and will be collected from its customers, the Commission seeks assurances from the Company that
9 any taxes collected from ratepayers have been remitted to the appropriate taxing authority. It has
10 come to the Commission's attention that a number of water companies have been unwilling or unable
11 to fulfill their obligation to pay the taxes that were collected from its ratepayers, some for as many as
12 twenty years. It is reasonable, therefore, that as a preventive measure the Company shall annually
13 file, as part of its annual report, an affidavit with the Commission's Utilities Division attesting that
14 the company is current in paying its property taxes in Arizona.

15 67. The Commission recognizes SUM's work as the interim manager and believes it has
16 helped to stabilize Valle Verde following Mr. Randall's death. Notwithstanding these efforts, the
17 Commission believes the long-term ownership of the utility must be addressed. Accordingly, we
18 believe Valle Verde's owners, within 180 days of the effective date of this Decision, must submit a
19 plan addressing the long-term ownership of the utility, whether through sale, private acquisition or
20 purchase by the City of Nogales.

21 CONCLUSIONS OF LAW

22 1. Valle Verde is a public service corporation within the meaning of Article XV of the
23 Arizona Constitution and A.R.S. §§40-250, 40-251, and 40-367.

24 2. The Commission has jurisdiction over Valle Verde and the subject matter contained in
25 the Company's Rate Application and Finance Application.

26 3. Notice of the Rate Application and Finance Application was given in accordance with
27 Arizona law.

28 4. The rates and charges established herein are just and reasonable and in the public

1 interest.

2 5. The financing approved herein is for lawful purposes within Valle Verde's corporate
3 powers, is compatible with the public interest, with sound financial practices, and with the proper
4 performance by Valle Verde of service as a public service corporation, and will not impair its ability
5 to perform the service.

6 6. The financing approved herein is for the purposes stated in the Finance Application
7 and as stated herein is reasonably necessary for those purposes, and such purposes are not, wholly or
8 in part, reasonably chargeable to operating expenses or to income.

9 7. The recommendations stated herein are reasonable and should be adopted.

10 **ORDER**

11 IT IS THEREFORE ORDERED that the Estate of William F. Randall d/b/a Valle Verde
12 Water Company is hereby authorized and directed to file with the Commission, on or before October
13 29, 2010, revised schedules of rates and charges consistent with the discussion herein, as set forth
14 below.

15 **MONTHLY USAGE CHARGE:**

16 5/8" x 3/4" Meter (All Classes)	\$18.00
17 3/4" Meter (All Classes)	18.00
18 1" Meter (All Classes)	43.00
19 1-1/2" Meter (All Classes)	86.00
20 2" Meter (All Classes)	138.00
21 3" Meter (All Classes)	275.00
22 4" Meter (All Classes)	429.00
23 6" Meter (All Classes)	857.00

24 **COMMODITY CHARGES:**

25 **5/8-Inch Meter (Residential)**

26 0 to 3,000 Gallons	\$1.30
27 3,001 to 10,000 Gallons	2.90
28 Over 10,000 Gallons	4.25

29 **3/4-Inch Meter (Residential)**

30 0 to 3,000 Gallons	1.30
31 3,001 to 10,000 Gallons	2.90
32 Over 10,000 Gallons	4.25

5/8 x 3/4-Inch Meter (Commercial)

0 to 10,000 Gallons	2.90
Over 10,000 Gallons	4.25

3/4-Inch Meter (Commercial)

0 to 10,000 Gallons	2.90
Over 10,000 Gallons	4.25

1-Inch Meter (Residential, Commercial)

0 to 15,000 Gallons	2.90
Over 15,000 Gallons	4.25

1 1/2-Inch Meter (Residential, Commercial)

0 to 20,000 Gallons	2.90
Over 20,000 Gallons	4.25

2-Inch Meter (Residential, Commercial, Res/Comm.)

0 to 25,000 Gallons	2.90
Over 25,000 Gallons	4.25

3-Inch Meter (Residential, Commercial)

0 to 70,000 Gallons	2.90
Over 70,000 Gallons	4.25

4-Inch Meter (Residential, Commercial)

0 to 150,000 Gallons	2.90
Over 150,000 Gallons	4.25

6-Inch Meter (Residential, Commercial)

0 to 500,000 Gallons	2.90
Over 500,000 Gallons	4.25

SERVICE LINE AND METER INSTALLATION CHARGES:

	<u>Service Line</u>	<u>Meter Installation</u>	<u>Total</u>
5/8" x 3/4" Meter	\$ 445.00	\$ 155.00	\$ 600.00
3/4" Meter	445.00	255.00	700.00
1" Meter	495.00	315.00	810.00
1-1/2" Meter	550.00	525.00	1,075.00
2" Turbine Meter	830.00	1,045.00	1,875.00
2" Compound Meter	830.00	1,890.00	2,720.00
3" Turbine Meter	1,045.00	1,670.00	2,715.00
3" Compound Meter	1,165.00	2,545.00	3,710.00
4" Turbine Meter	1,490.00	1,737.00	3,227.00

1	4" Compound Meter	1,670.00	3,645.00	5,315.00
	6" Turbine Meter	2,210.00	3,766.00	5,976.00
2	6" Compound Meter	2,330.00	6,920.00	9,250.00
	Over 6"	Cost	Cost	Cost

SERVICE CHARGES:

5	Establishment	\$30.00
	Establishment (After Hours)	40.00
6	Reconnection (Delinquent)	40.00
	Reconnection (Delinquent and After Hours)	50.00
7	Meter Test (if correct)	35.00
	Deposit	(a)
8	Deposit Interest	(a)
	Re-Establishment (Within 12 Months)	(b)
9	NSF Check	\$25.00
	Late Charge per month	1.50%
10	Deferred Payment, Per Month	1.50%
	Meter Re-Read (If Correct)	20.00

11 Monthly Service Charge for Fire Sprinkler (c)

- 12
- 13 (a) Per Commission Rule A.A.C. R14-2-403(B)
- 14 (b) Number of months off system times the monthly minimum, per Commission Rule A.A.C. R14-2-403(D).
- 15 (c) 2% of monthly minimum for a comparable sized meter connection, but no less than \$10.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

16 IT IS FURTHER ORDERED that the revised schedules of rates and charges shall be effective

17 for all service rendered on and after November 1, 2010.

18 IT IS FURTHER ORDERED that the Estate of William F. Randall d/b/a Valle Verde Water

19 Company shall implement a Temporary Surcharge of \$.60 per 1,000 gallons, as described herein.

20 The Temporary Surcharge shall become effective on November 1, 2010, and the Company shall

21 continue to assess the Temporary Surcharge until such time that all funds currently owed to the City

22 of Nogales for purchased water have been paid in full.

23 IT IS FURTHER ORDERED that the Estate of William F. Randall d/b/a Valle Verde Water

24 Company shall file with Docket Control, as a compliance item in this docket, beginning December

25 31, 2010, quarterly statements indicating the beginning balance on the City of Nogales account, the

26 amount collected by the Temporary Surcharge during the quarter, the amount paid to the City of

27 Nogales during the quarter, and the balance at the end of the quarter. Such quarterly reports shall

28 continue to be filed until the account has been paid in full.

1 IT IS FURTHER ORDERED that upon payment of the funds owed to the City of Nogales,
2 the Estate of William F. Randall d/b/a Valle Verde Water Company shall file with Docket Control, as
3 a compliance item in this docket, an affidavit indicating that the funds have been repaid and the
4 Temporary Surcharge has ceased, within 30 days of the cessation of the Temporary Surcharge.

5 IT IS FURTHER ORDERED that the Estate of William F. Randall d/b/a Valle Verde Water
6 Company shall notify its customers of the revised schedules of rates and charges and Temporary
7 Surcharge authorized herein by means of an insert in its next regularly scheduled billing, or by
8 separate mailing, in a form acceptable to Staff.

9 IT IS FURTHER ORDERED that the Estate of William F. Randall d/b/a Valle Verde Water
10 Company shall file as part of its Annual Report affidavits attesting that it is current on payment of its
11 property taxes in Arizona.

12 IT IS FURTHER ORDERED that the Estate of William F. Randall d/b/a Valle Verde Water
13 Company shall use the Depreciation Table, attached hereto as Exhibit A, on a going forward basis.

14 IT IS FURTHER ORDERED that the Estate of William F. Randall d/b/a Valle Verde Water
15 Company shall monitor the water loss for both systems and report the losses in its Annual Reports. If
16 the reported water loss is greater than 10 percent for either system, the Company shall prepare a
17 report containing a detailed analysis and plan to reduce water loss to 10 percent or less for that
18 particular system. If the Company believes it is not cost effective to reduce the water loss to less than
19 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the
20 Company allow water loss to be greater than 15 percent for either system.

21 IT IS FURTHER ORDERED that the Estate of William F. Randall d/b/a Valle Verde Water
22 Company shall file with Docket Control, as a compliance item in this docket, no later than December
23 31, 2011, a copy of the Approval of Construction of the additional storage.

24 IT IS FURTHER ORDERED that the Estate of William F. Randall d/b/a Valle Verde Water
25 Company is authorized to borrow up to \$1,278,238, from the Arizona Water Infrastructure Finance
26 Authority for a term of up to 22 years amortizing loan at a rate not to exceed the prime rate plus two
27 percent for an amount not to exceed \$1,278,238.

28 IT IS FURTHER ORDERED that such financing authority shall be expressly contingent upon

1 the Estate of William F. Randall d/b/a Valle Verde Water Company's use of the proceeds for the
2 purposes stated and approved herein.

3 IT IS FURTHER ORDERED that the Estate of William F. Randall d/b/a Valle Verde Water
4 Company may use the proceeds of its loan to repay a short-term loan from Southwest Utility
5 Management in an amount not to exceed \$25,000.

6 IT IS FURTHER ORDERED that the Estate of William F. Randall d/b/a Valle Verde Water
7 Company is authorized to engage in any transactions and to execute any documents necessary to
8 effectuate the authorization granted herein.

9 IT IS FURTHER ORDERED that the Estate of William F. Randall d/b/a Valle Verde Water
10 Company shall file with Docket Control, as a compliance item in this docket, copies of its executed
11 financing documents within 60 days after the transaction is closed.

12 IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not
13 constitute or imply approval or disapproval by the Commission of any particular expenditure of the
14 proceeds derived thereby for purposes of establishing just and reasonable rates.

15 IT IS FURTHER ORDERED that the Estate of William F. Randall d/b/a Valle Verde Water
16 Company shall file a Finance Application with the Commission for approval of the truck loan in
17 accordance with A.R.S. §§ 40-301 and 40-302, no later than January 31, 2010.

18 IT IS FURTHER ORDERED that Valle Verde Water Company's owners submit for
19 Commission consideration within 180 days of the effective date of this Decision, a plan addressing
20 the long-term ownership of the utility, highlighting possible actions, including sale, private
21 acquisition or purchase by the City of Nogales.

22 ...

23 ...

24 ...

25 ...

26 ...

27 ...

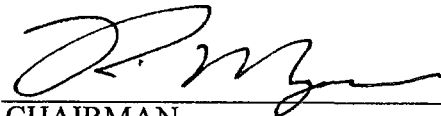
28 ...

1 IT IS FURTHER ORDERED that Valle Verde Water Company submit for Commission
 2 consideration within 120 of the effective date of this Decision, at least three Best Management
 3 Practices (as outlined in Arizona Department of Water Resource's Modified Non-Per Capita
 4 Conservation Program). A maximum of two of these Best Management Practices may come from the
 5 "Public awareness/PR" or "Education and Training" categories of the Best Management Practices.
 6 The Best Management Practices shall generally follow the templates contained on the Commission's
 7 website. The Company may request cost recovery of actual costs associated with the Best
 8 Management Practices implemented in its next rate case.

9 IT IS FURTHER ORDERED that this docket shall be held open until December 31, 2011.

10 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

11 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

12
13 

14 CHAIRMAN

COMMISSIONER

15
16 COMMISSIONER

COMMISSIONER

COMMISSIONER

17
18 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
 19 Executive Director of the Arizona Corporation Commission,
 20 have hereunto set my hand and caused the official seal of the
 21 Commission to be affixed at the Capitol, in the City of Phoenix,
 22 this 28th day of September, 2010.

23 
 24 ERNEST G. JOHNSON
 25 EXECUTIVE DIRECTOR

26 DISSENT 

27 DISSENT _____
 28

1 SERVICE LIST FOR:

THE ESTATE OF WILLIAM F. RANDALL
D/B/A VALLE VERDE WATER COMPANY

2
3 DOCKET NOS.:

W-01431A-09-0360 and W-01431A-09-0361

4 Steve Wene
5 MOYES SELLERS & SIMS
6 1850 North Central Avenue, Suite 1100
7 Phoenix, AZ 85004

8 Janice Alward, Chief Counsel
9 Legal Division
10 ARIZONA CORPORATION COMMISSION
11 1200 West Washington Street
12 Phoenix, AZ 85007

13 Steven M. Olea, Director
14 Utilities Division
15 ARIZONA CORPORATION COMMISSION
16 1200 West Washington Street
17 Phoenix, AZ 85007
18
19
20
21
22
23
24
25
26
27
28

EXHIBIT "A"**Water Depreciation Rates (Valle Verde Water)**

Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	15	6.67
320.4	Water Treatment Plant (media) - PCE removal plant	20	5.00
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----